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Voluntary Public

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New Zealand Cattle and Beef Semi-Annual Report 2013

Report Categories:

Livestock and Products

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Report Highlights:

A surge in the cull cow kill, forecast to be up 15% compared to the same period last year, along with an increased calf kill, will likely result in a 3 percent increase in total cattle slaughter numbers to 4.07 million head,. On the other hand, total beef production is estimated to decline by 16,000 metric tons to 609,000 metric tons carcass weight equivalent (CWE) because of drought-induced lower average carcass weights in New Zealand's North Island. Exports to the US are likely to be up for the second year in a row to 245,000 metric tons CWE, representing a 3% increase compared to exports last year. China has emerged as a major destination for exports and may take up to 25,000 metric tons in 2013 of a broader range of cuts than has been traditionally shipped.

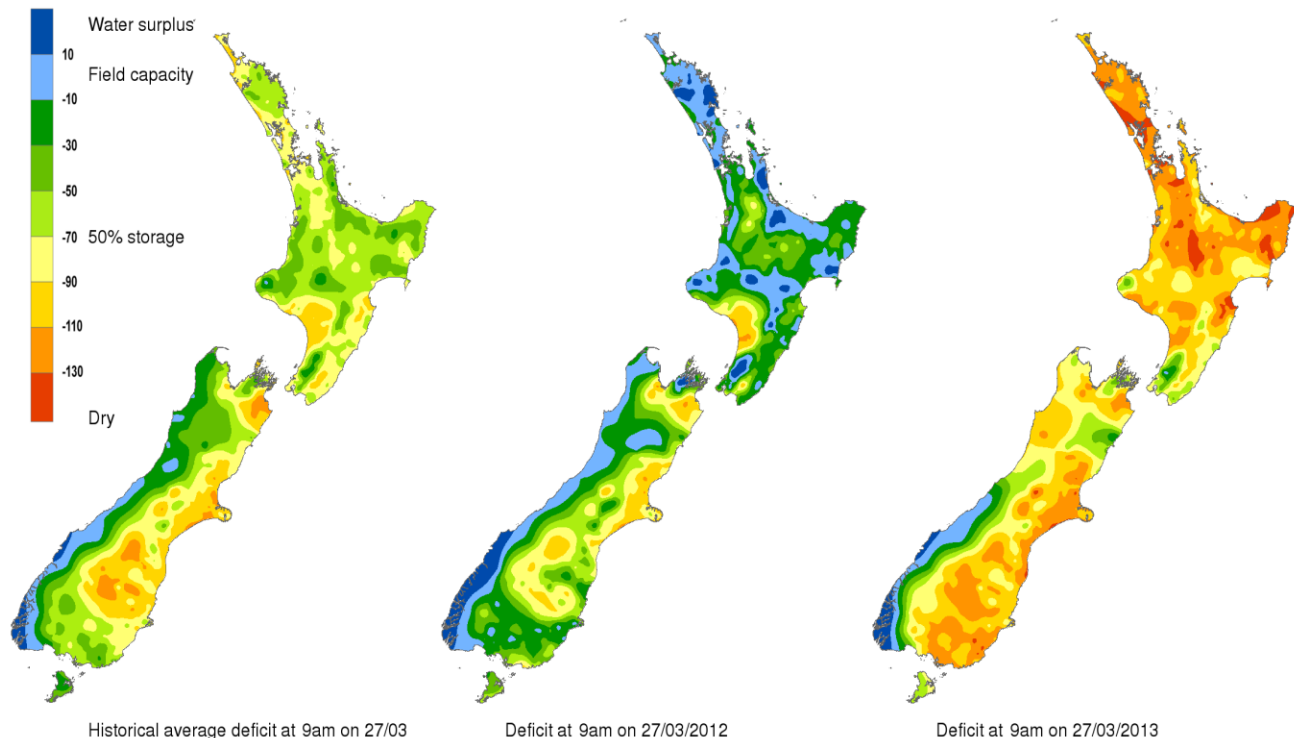
Production Supply and Demand – Cattle Numbers

Animal Numbers, Cattle New Zealand (1000hd, %)	2011		2012		2013			% Change 2013 New Post Data from 2012 New Post Data	% Change 2012 New Post Data from 2012 last Post Est.
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013				
	Off. Data	New Post Data	Off. Data	New Post Data	Off. Data	Post Est.	New Post Data		
Total Cattle Beg. Stks	9,864	9,864	10,057	10,021	10,253	10,253	10,199	1.8%	-0.4%
Dairy Cows Beg. Stocks	4,680	4,680	4,816	4,816	5,021	5,021	5,018	4.2%	0.0%
Beef Cows Beg. Stocks	1,117	1,118	1,053	1,053	1,053	1,053	1,055	0.2%	0.0%
Production (Calf Crop)	4,786	4,786	5,022	4,945	4,943	4,943	4,840	-2.1%	-1.5%
Total Imports	0	0	0		0	0	0		
Total Supply	14,650	14,650	15,079	14,966	15,196	15,196	15,039	0.5%	-0.7%
Total Exports	34	34	41	42	47	47	47	11.9%	2.4%
Cow Slaughter	806	806	800	763	925	925	875	14.7%	-4.6%
Calf Slaughter	1,665	1,665	1,830	1,695	1,750	1,750	1,767	4.2%	-7.4%
Other Slaughter	1,468	1,468	1,490	1,499	1,471	1,471	1,425	-4.9%	0.6%
Total Slaughter	3,939	3,939	4,120	3,957	4,146	4,146	4,067	2.8%	-4.0%
Loss	620	656	665	768	693	693	725	-5.6%	15.5%
Ending Inventories	10,057	10,021	10,253	10,199	10,310	10,310	10,200	0.0%	-0.5%
Total Distribution	14,650	14,650	15,079	14,966	15,196	15,196	15,039	0.5%	-0.7%
CY Imp. from U.S.	0		0		0				
CY. Exp. to U.S.	0		0		0				
Balance	0	0	0	0	0	0	0		
Inventory Balance	193	157	196	178	57	57	1	-99.4%	-9.2%
Inventory Change	(1)	(1)	2	2	2	2	2	0.0%	0.0%
Cow Change	2	2	1	0	3	0	0		
Production Change	6	5	5	3	(2)	(2)	(2)	-166.7%	-40.0%
Production to Cows	83	83	86	84	81	81	80	-4.8%	-2.3%
Slaughter to Inventory	40	40	41	39	40	40	40	2.6%	-4.9%
Slaughter to Total Supply	27	27	27	26	27	27	27	3.8%	-3.7%
TS=TD	0	0	0	0		0	0		

Data included in this report is not official USDA data. Official USDA data is available at <http://www.fas.usda.gov/psdonlineonline>

Drought Conditions

Soil moisture deficit (mm) at 9am on 27/03/2013



The drought conditions being experienced over New Zealand at the moment are said to be some of the most severe in the last fifty years. The main reason is that this drought is affecting all of the North Island and now parts of the South Island which do not normally experience these conditions. In the past, droughts which may have been more severe in a particular region were confined to either the east or west sides of the North Island. Drought conditions normally have severe and immediate impacts on meat production in New Zealand. This is because most livestock producers rely totally on pasture growth to sustain the animals, and farms are managed with relatively high animal stocking rates. Once pastures stop growing in the summer these production systems very quickly unravel.

Livestock Supply – The Drivers Behind the Changes Expected in 2013

While total slaughter numbers for 2013 are expected to remain above 2012 numbers, total slaughter numbers will be less than Post's prior estimates made in September 2012. Here is how the dynamics are likely to play out during 2013:

- A big surge in the cow kill is on the way. Results for January and February 2013 show the kill to already be 50,000 head greater than during the same period in 2012. Post expects total kill will range between 850,000 and 900,000 head. Underlying factors include:

- Drought conditions over most of the North Island which are forcing both beef cow and dairy farmers to cull early and severely.
 - Lower milk prices which are forcing dairy farmers to cull marginal producing and non-pregnant cows early.
 - Prior Post forecasts in September 2012 had the cow kill at 925,000 head, approximately 25,000 head below what could eventuate if national herd numbers were stable. Now the combination of- dairy heifer exports necessitating older cows to be retained in place of first calving heifers; and extra cows needed for continued land conversions to dairying will limit the overall cow kill to 875,000 head.
- The veal calf kill is likely to be higher than previous expectations based on an increased percentage of the live calves from the dairy herd being sold to the meat processors.
 - Even though the rate of kill for other adult cattle in the first half of 2013 is likely to be higher compared to the same period last year as a result of drought conditions forcing early slaughter, this will be balanced by a correspondingly lower kill in the second half of the year due to the reduced inventories that will ensue.
 - Losses for 2012 and 2013 are now estimated to be higher than previous forecasts because the actual figures for calf production are taken from StatisticsNZ published figures and are for the numbers of calves born not the number that survive to sale. The survival to sale rates for 2012, especially, dropped below what had been expected. Total losses are expected to increase gradually as the total herd increases.

Production Supply and Demand – Beef Production

Meat, Beef & Veal New Zealand (1000hd,1000 MT CWE, kg,)	2011		2012		2013			% Chang e 2013 New Post Data from 2012 New Post Data	% Chang e 2013 New Post Data from 2013 last Post Est.
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013				
	Off. Data	New Post Data	Off. Data	New Post Data	Off. Data	old Post Est.	New Post Data		
Slaughter (Reference)	3,939	3,939	4,120	3,957	4,146	4,146	4,067	2.78%	-1.91%
Beginning Stocks	0	0	0	0	0	0	0		
Production	601	601	627	625	633	633	609	-2.56%	-3.79%
Total Imports	12	12	10	10	11	11	11	10.00 %	0.00%
Total Supply	613	613	637	635	644	644	620	-2.36%	-3.73%
Total Exports	503	503	521	517	529	529	505	-2.32%	-4.54%
Human Dom. Consumption	110	110	116	118	115	115	115	-2.54%	0.00%
Other Use, Losses	0	0	0	0	0	0	0		
Total Dom. Consumption	110	110	116	118	115	115	115	-2.54%	0.00%
Ending Stocks	0	0	0	0	0	0	0		
Total Distribution	613	613	637	635	644	644	620	-2.36%	-3.73%
CY Imp. from U.S.	0	0	0	0	0				
CY. Exp. to U.S.	213	213	215	239	0	252	245	2.51%	-2.78%
Balance	0	0	0	0	0	0	0		
Inventory Balance	0	0	0	0	0	0	0		
Weights	153	153	152	158	153	153	150	-5.06%	-1.96%
Production Change %	(7)	(7)	4	4	1	1	(3)	- 175.00 %	- 400.00 %
Import Change %	9	9	(17)	(17)	10	10	10	- 158.82 %	0.00%
Export Change %	(5)	(5)	4	3	2	2	(2)	- 166.67 %	- 200.00 %
Consumption Change %	(11)	(11)	5	7	(1)	(1)	(3)	- 142.86 %	200.00 %
Imports Percent Consumption	11	11	9	8	10	10	10	25.00 %	0.00%
Exports Percent Production	84	84	83	83	84	84	83	0.00%	-1.19%
Population	4,290,3 47	4,290,3 47	4,327,9 44	43279 44	4,365,1 13	4,365,1 13	4,365,1 13	0.86%	0.00%
Per Capita	26	26	27	27	26	26	26	-3.66%	0.00%

Consumption									
TS=TD		0		0		0	0		

Data included in this report is not official USDA data. Official USDA data is available at
<http://www.fas.usda.gov/psdonlineonline>

Meat Production 2013

New Zealand Beef Production Table										
Marketing Year	2011			2012			Actual	2013		Forecasts
	CW kgs/ hd	Numbe rs to kill (1000's)	Total tons Beef	CW kgs/ hd	Numbe rs to kill (1000's)	Total tons Beef		Est. CW kgs/ hd	Numbe rs to kill (1000's)	Total tons Beef
Cow Slaughter	200. 2	806	16138 0	205. 6	763	15684 3		199	875	174,12 5
Calf Slaughter	16.3	1,665	27146	16.4	1,695	27722		15.8 0	1,767	27919
Heifer Slaughter	235. 2	481	11320 9	245. 1	451	11059 3		237	423	100,25 1
Steer slaughter	305. 5	572	17469 0	317. 5	582	18493 8		309	559	172,73 1
Bull Slaughter	299. 6	415	12425 2	310. 0	466	14432 5		303	443	134229
Other Adult Cattle Subtotal	280. 8	1,468	41215 1	293. 4	1,499	43985 6		285. 8	1,425	407211
Total Slaughter	152. 5	3,939	600,6 78	157. 8	3,957. 0	624,4 21		149. 8	4,067	609255
% Change from Previous Year										
Cow Slaughter	1.1%	-7.1%	-6.1%	2.7%	-5.4%	-2.8%		- 3.2%	14.7%	11.0%
Calf Slaughter	- 0.3%	6.6%	6.3%	0.3%	1.8%	2.1%		- 3.4%	4.3%	0.7%
Heifer Slaughter	0.2%	-2.3%	-2.1%	4.2%	-6.2%	-2.3%		- 3.3%	-6.3%	-9.4%
Steer slaughter	- 1.2%	-9.5%	- 10.5%	3.9%	1.9%	5.9%		- 2.7%	-4.0%	-6.6%
Bull Slaughter	-3%	-5%	-7%	3.5%	12.2%	16.2%		- 2.3%	-4.8%	-7.0%
Other Adult Cattle Subtotal	-2%	-6%	-7%	4.5%	2.1%	6.7%		- 2.6%	-5.0%	-7.4%

Source: Statistics, B&LNZ, Post estimates

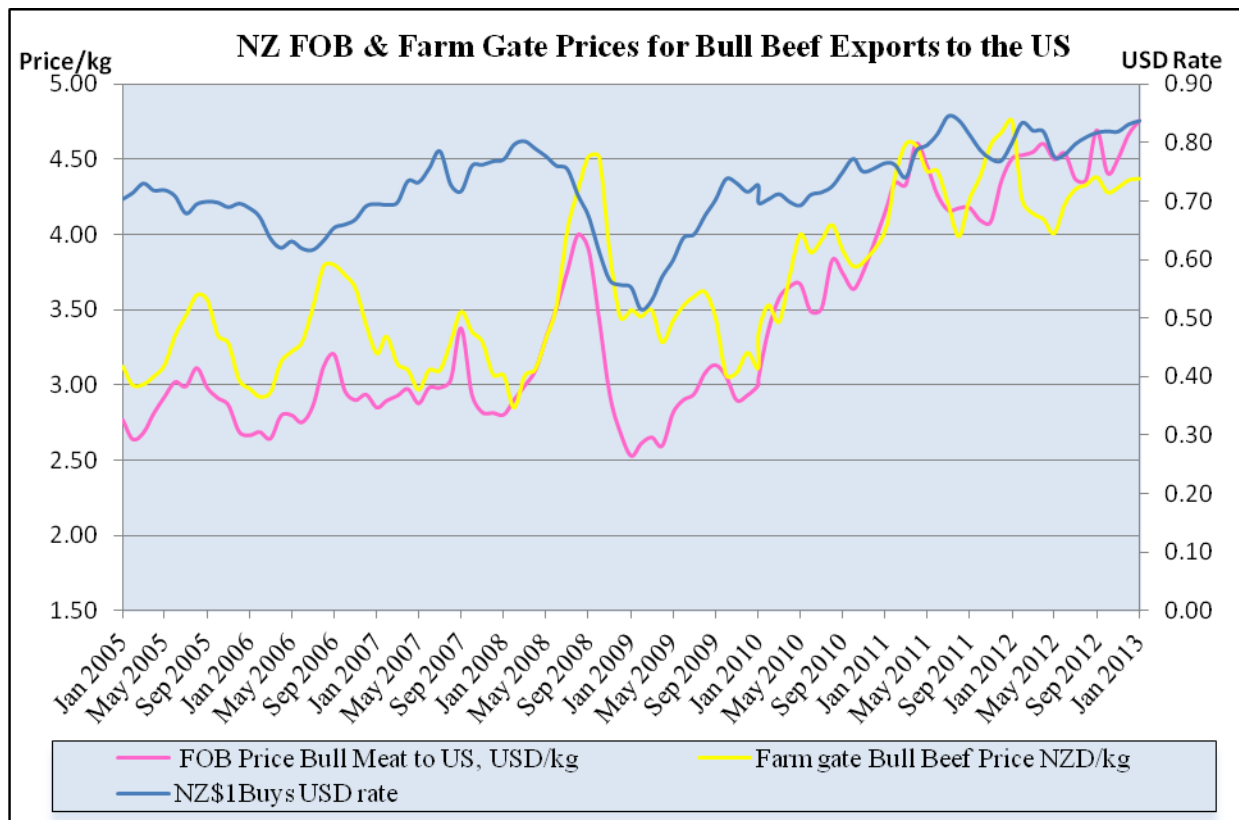
Total Beef production for 2013 is expected to range between 590,000 and 615,000 metric tons carcass weight equivalents (CWE). Post is forecasting total beef production at 609,000 metric tons. However, there is a downside risk to that number due to the ongoing effects of the drought, which may lead to a further reduction in average carcass weights. This is approximately 4% less than had been originally forecast because overall slaughter numbers are likely to be less than previous forecasts and, owing to the drought, average carcass weights have been reduced from previous estimates.

Exports

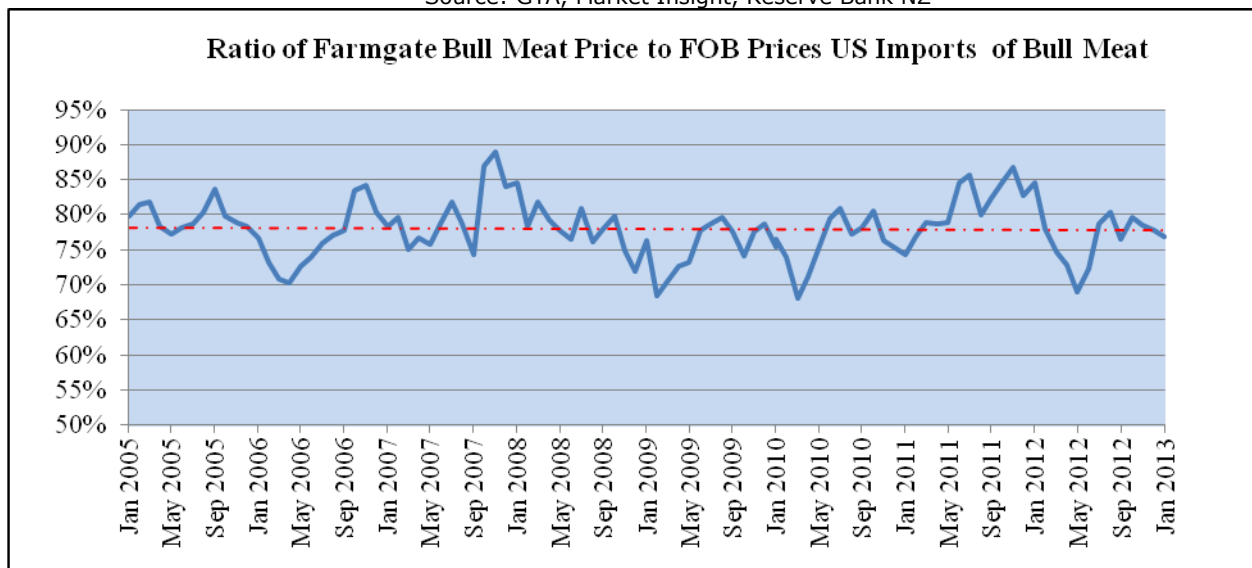
Drought reducing average slaughter weights and a revised overall total slaughter at lower numbers will reduce total beef production and in turn exports are expected to be lower at between 490,000 to 510,000 metric tons CWE. Post is forecasting 505,000 metric tons CWE. This will be a 4.5% reduction from previous estimates for 2013 and a 2% decline from exports in 2012. As has been discussed above further deterioration in pasture supplies going into winter could well cause production to drop below Posts estimate. Because domestic consumption is stable any further production falls will be relayed directly through to drops in exports.

New Zealand Beef Export Statistics							
for Beef HS Codes: 0201, 0202, 021020, 160250 on a Product Weight Basis; During Calendar Years:							
Partner Country	2010		2011		2012		
	Total FOB Value (USD)	Quantity (metric tons)	Total FOB Value (USD)	Quantity (metric tons)	Total FOB Value (USD)	Quantity (metric tons)	Qty as a % of Total
United States	565,255,504	158,761	676,540,559	151,873	784,920,496	170,335	46.1 %
Japan	159,376,227	34,130	155,523,314	30,819	167,053,933	32,207	8.7%
Taiwan	82,892,321	19,459	104,434,874	19,445	107,940,989	19,668	5.3%
Korea South	107,000,160	34,292	139,838,064	35,973	100,459,168	28,785	7.8%
Canada	80,198,559	22,994	95,624,391	22,786	82,844,922	19,090	5.2%
China	6,633,028	2,430	9,683,190	2,821	41,756,268	10,491	2.8%
Singapore	30,985,432	6,252	37,282,782	6,266	39,060,193	7,430	2.0%
Australia	29,099,402	4,895	39,292,868	6,220	38,666,533	6,239	1.7%
Philippines	28,952,739	9,890	35,074,545	10,028	37,440,834	11,817	3.2%
Indonesia	114,804,138	36,926	81,616,663	20,880	34,938,980	8,209	2.2%
Hong Kong	28,695,944	5,592	29,950,663	5,071	34,122,923	5,604	1.5%
All other Destinations	237,213,800	42,703	324,581,238	47,183	320,220,726	49,324	13.4 %
World	1,471,107,253	378,325	1,729,443,153	359,366	1,789,425,968	369,201	100%

Source: GTA



Source: GTA, Market Insight, Reserve Bank NZ

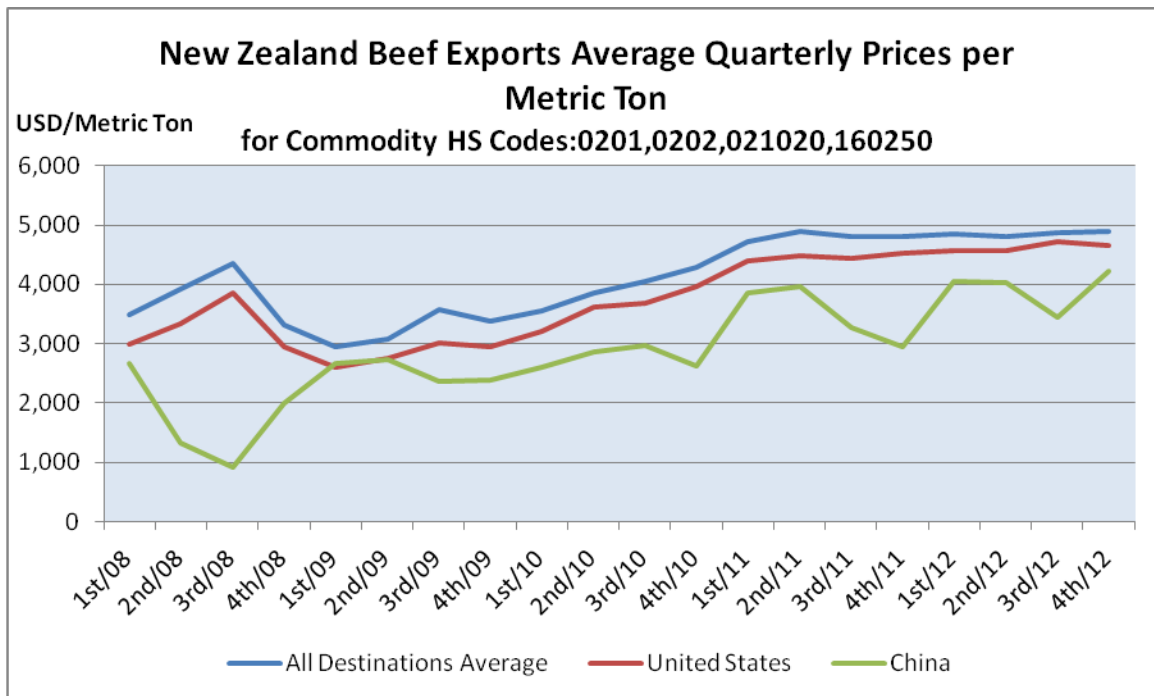


Source:

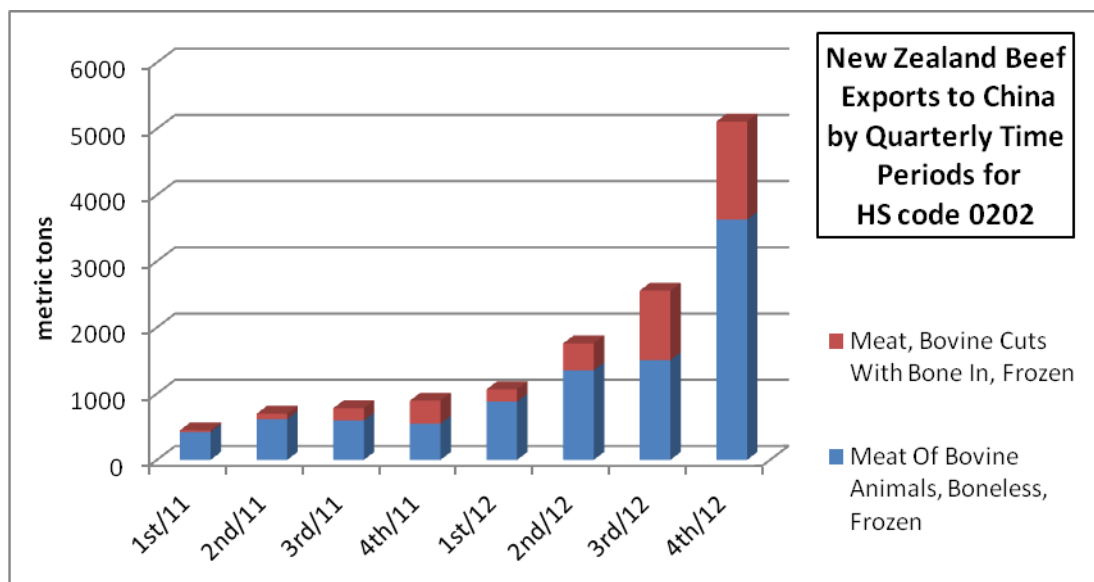
GTA, Market Insight, Reserve Bank NZ

United States

Post expects an even greater share of total exports to be shipped to the United States. At 48.5% of total exports this will equate to 245,000 metric tons CWE, representing a 6,000 metric ton increase over exports to the U.S. in 2012. According to industry participants, the US is currently the most competitively-priced market for cow and bull manufacturing grade meat and is expected to stay that way for the rest of 2013.



Source: GTA



Source: GTA

China

China emerged as a serious marketing alternative for New Zealand meat companies during 2012. Based on industry comment Post believes 15,000-25,000 Metric Tons Product Weight Equivalent (PWE) could be shipped to China during 2013. Meat exporters could be looking at a doubling of the 2012 volume of 10,491 metric tons PWE which in turn was over 3.5 times the level of shipments in 2011. At the moment there is something of a bottleneck to supply because only approximately half the export facilities are approved to export beef to China. All the major players have plants registered and are working to get additional plants registered.

One advantage New Zealand does have which makes it competitive on pricing is the Free Trade agreement with China. From tariff rates of 12% to 25% back in 2007, now in 2013 tariff rates are 4% to 8.3%, and by 2016 beef will be free of tariffs. This at least evens up the advantage Australian exporters enjoy with regard freight rates.

Expansion of tonnage shipped to China may limit the upside of any volume increases to the US, and some product usually sent to Korea or Japan may well get re-directed to China.

Traditionally China has been a minor market taking a similar product mix to Korea, mostly mid-value cuts often destined for Hotpot dishes. Now the exporters are getting enquiry for a broader range of cuts. In addition demand is emerging for manufacturing beef (90% and 95% chemical lean cow and bull beef) at comparable pricing to shipping to the US. With the reported major expansions of quick service restaurant chains such as McDonalds who need proven quality and food safety it is probably not surprising that this demand is turning toward New Zealand and Australia.

The chart above depicting quarterly pricing at FOB for beef exports shows a fairly smooth trend upward for the all destinations average and the main destination, the US. However the line for China shows a more volatile trend upward which is more to do with rapid changes in the product mix being shipped rather than changes in market pricing. Historically the hot-pot type cuts shipped were frozen and boneless and usually made up 70-90% of total volume. However in the 4th Quarter 2011 and 3rd Quarter, 2012 the volumes of lower value bone-in frozen product was 39% and 41% of the total, respectively, which reduced the average price significantly even though the boneless product being shipped was still increasing in price.

New Zealand Export Statistics To China						
Commodity: Co-Products Mainly Bovine, Offals, Hides, other Bovine products- Analysis'						
Annual Series: 2007 - 2012						
Description	United States Dollars					
	2007	2008	2009	2010	2011	2012
Total for Offals,Hides,other Bovine products	17,494,847	29,144,328	43,952,676	48,540,668	88,446,581	114,301,680
Subtotal Offals edible and processed products	7,759,742	23,282,990	32,128,073	34,751,270	63,652,123	81,483,228
sub total hides/leathers etc	9,729,487	5,848,618	11,810,913	13,771,527	24,772,712	32,803,430
Sub-total other processed items leather etc	5619	12720	13690	17869	21747	15022
Analysis for: Animal products; guts bladders and stomachs of animals part of offals subtotal						
Volume in metric tons	3266	7605	9208	9053	10953	10221
Pricing in USD/metric ton	2186	2952	3369	3617	5600	7650
Total Value FOB in USD	7,140,679	22,448,648	31,018,894	32,745,719	61,330,144	78,185,116

Source: GTA

Not part of the PSD beef HS codes analyzed usually but of quite some significance with regard China are co-product exports which in revenue terms dwarfed beef meat returns in 2012. Co-products have shown remarkable increases with regard both prices and volumes.

China is also a traditional market for inedible tallow. Volumes shipped are relatively stable between 90,000 to 110,000 metric tons per annum and prices have been gradually increasing.

Policy

Primary Growth Partnership

The Primary Growth Partnership is a government-industry initiative that invests in significant programs of research and innovation to boost the economic growth, productivity and sustainability of New Zealand's primary, forestry and food sectors. The Government has said it will make funding available up to NZ \$70-80 million per annum for this initiative.

Investments are to cover the whole of the value chain, including education and skills development, research and development, product development, commercialization, commercial development and technology transfer.

Each program is a joint investment between the Crown and industry. Qualifying contributions by the co-investors must be equal to or greater than the Crown Primary Growth Partnership funding. Eight funding rounds have been held since 2009. So far 13 programs have been approved, of which five are connected to the red meat sector. A total of 161.4million has been committed over a seven year timeframe by the Government to fund these five programs along with industry funding of NZ \$201.3 million.

This is a significant initiative for the primary sector especially the meat industry where for most of its history most of the Research and Development funding has been for work behind the farm gate to increase on-farm productivity. Now this initiative is seeing product development being more market focused and led by the commercial operators. Commercialization of the new products and services will involve the linkages right back to behind the farm gate and will incorporate technology transfer and altered/new production methods.

Reference Sources:

Beef and Lamb New Zealand

StatisticsNZ – The New Zealand Department of Statistics

MPI – Ministry for Primary Industries